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STATEMENT OF THE HONORABLE BOB BERGLAND
SECRETARY OF AGRICULTURE
BEFORE THE COMMITTEE ON INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES
Thursday, February 23, 1978

Mr. Chairman and members of the Committee, I appreciate the opportunity to appear before you this morning--to discuss developments in our overseas aid and development programs and some of the legislation pending or proposed. I commend the Committee on this series of hearings on a subject of the greatest importance to the future peace and stability of the world.

Certainly, we in the U.S. Department of Agriculture appreciate your attention to questions having to do with food and agriculture. We have a twin challenge in our relations with developing nations: (1) To help them improve their own food production while meeting hunger emergencies through bilateral and multilateral food aid. (2) To aid their economic growth to the end that ultimately they can import commercially and have the facilities to utilize these imports.

History shows that as a country moves up on the economic scale, it becomes a customer for a greater volume and variety of imported products and that all nations are benefitted by the resulting growth in trade. We recognize that in some instances a developing country may grow in ways that offer increased competition to American agriculture. But so long as this competition is real, fair, and not artificially maintained by governmental aids and restrictions, we can have no objection. We have a highly efficient agriculture in the United States, and we will compete vigorously for world markets. But we recognize the right of other countries also to compete.

The world will continue to need expanding food supplies to meet the needs of growing populations and higher income. Part of the answer is in agricultural development. Part of the answer is in trade expansion. We are in favor of both. This is basic to our participation in the multilateral trade negotiations in Geneva and in the current negotiations, also in Geneva, leading to a new international wheat agreement.

U.S. farmers need to maintain and expand their overseas markets. Not only is this important to farm income, it is also a major element of strength in our total economy and in our international trade position. Moreover, the whole matter of world food security rests heavily on an American agriculture that is economically strong, vigorous, and productive.

In order to maintain the large U.S. production capacity needed for world food security, U.S. farmers need access to the world's commercial markets, strengthened credit programs, and vigorous efforts to expand export trade. We have in the past year taken steps to develop and strengthen a whole range of export programs, old and new. We have also augmented our aid and development programs, taking advantage of a period when supplies are ample and commodity prices relatively low.

For the current fiscal year, we are estimating U.S. farm product exports at a record 110 million tons, an 8 million ton increase over the preceding year. However, prices are down--especially for corn, soybeans and cotton--so that our export value will be somewhat below fiscal 1977. We are estimating value at \$22.5 billion--\$1.5 billion below last year but still the third largest on record. Moreover, some \$7 billion of these commodities--30 percent or so--will go to developing countries, mostly on commercial terms.

The World Food Situation

Total world food production (excluding China) increased about one percent in 1977, with output increasing at about the same rate in both the developed and developing countries. Per capita world output, however, fell a little short of the 1976 record.

World grain production (including wheat, coarse grains and rice) is estimated at 1,428 million metric tons in 1977/78, about 2 percent below the 1976/77 record harvest. Increases in world production of rice offset declines in wheat and coarse grains. However, with carryin stocks totaling 194 million tons, world grain supplies for 1977/78 are at record levels.

The 1977 world wheat and coarse grain production is now estimated at 1,065 million tons, about 4 percent below last year's record level. A record grain crop in the United States was offset by a sharp drop in the USSR's grain crop and smaller crops in a number of other important areas, including some major exporting nations.

With world grain consumption and trade rising in the face of smaller crops, global carryover stocks of wheat and coarse grains are estimated to drop some 7-8 million metric tons from the 173 million metric tons held at the beginning of the season. This would imply world stocks equal to about 15 percent of estimated annual usage compared with about 12 percent in 1973/74.

In contrast to the drawdown in stocks in the rest of the world, in 1977/78 it appears that the United States will again add significantly to its grain stocks. Current estimates suggest grain stocks in the U.S. will reach about 75 million tons at the end of the season, up about 15 million tons from a year ago with most of the increase in coarse grains.

This would mean that the United States would be holding about 45 percent of the world's grain stocks (40 percent of the wheat and 52 percent of the coarse grains).

The 1977 harvests in the developing countries were generally quite good, although per capita output did not quite match the peak reached in 1975 and 1976. Carryover food stocks at the beginning of 1978 were reported to be unusually ample and many of the poorer countries had an improved capability to purchase food commercially because of more favorable trade balances in 1976 and 1977. There were important exceptions which I will mention.

The food situation in heavily populated South Asia--where as much as two-thirds of U.S. food aid has gone in the past--is much improved over 1972 and 1974. Food production in 1977 in India, Bangladesh, Pakistan, and Sri Lanka was at or near record high. While stock positions, particularly in India, are relatively strong, poor weather in 1978 could easily alter their situation. Afghanistan, however, still feels effects from a drought in 1977. While harvests were generally satisfactory in East Asia, unfavorable weather in Southeast Asia appears to have resulted in serious food shortages in Laos, Vietnam, and to a lesser extent, Cambodia.

In Latin America, for the region as a whole, food production reached new highs. However, Haiti and other parts of the Caribbean have been hurt by drought, and Bolivia food production lags.

Parts of North Africa and the Middle East were hard hit by drought in 1977. Grain production was down more than 40 percent in Morocco and Tunisia, and Jordan's food output fell as much as 30 percent. Egyptian food production increases matched the growth in its population, but per

capita output remains below the 1961-65 average.

Insufficient and erratic rains in late 1976 and most of 1977 have caused food shortages in several of the countries stretching across the semi-arid belt of Africa from Mauritania to Sudan. Although the general food situation is less serious than in the early 1970's, all or most of Cape Verde Islands, Mauritania, Northern Senegal, the Gambia, and parts of Mali, Upper Volta, Niger, Central African Empire, Chad, Togo, and Benin reported sizeable shortfalls in food production.

Poor 1977 harvests or civil disorder, border conflicts, and refugee problems have adversely affected the food situation in Ethiopia, Somalia, Sudan, Djibouti, Rwanda, Zaire, Zambia, Mozambique and Tanzania.

All in all, world output of all agricultural products in 1977 was 13 percent above the problem year of 1972. Food production was up 14 percent during that time--and above any preceding year. World per capita food production was up 6 percent from 1972. Per capita food production in developing countries was 7 percent above 1972 but no higher than 1970 and not much higher than the late 1960's.

We have the paradox of continuing malnutrition and food insecurity in some countries while U.S. agriculture is depressed by the existence of large commodity stocks. This year, U.S. grain stocks will be the highest since 1965 and wheat stocks the highest since 1963. As a result, parts of American agriculture find themselves in a state of depression, leading to widespread farmer distress and demonstrations including those here in the Nation's Capital.

As Lincoln once advised, based on some ancient philosophy, this too shall pass away. But not before it causes much pain and some bankruptcy. We are doing everything we can to meet the American farmer's

immediate problems while recognizing that world supplies could again do a turnaround; weather has been good for three years; it could change. So we are working on a variety of programs and policies to deal with near-term problems--meantime working to stabilize the world food economy and increase global production against a continued growth in population and food needs.

Foreign Assistance

The Administration has now sent to Congress its proposed International Development Assistance Act of 1978, which authorizes appropriations for Foreign Assistance development programs for fiscal year 1979. It also includes technical amendments to simplify and remove obsolete provisions of the Foreign Assistance Act of 1961, as amended. It should provide more flexibility in administering agricultural and rural development programs in developing countries.

Bilateral development assistance will be expanded in accordance with the President's decision to focus more directly on the poorest countries. Over half of the loans and grants under this program are planned for activities involving food and nutrition. These programs are designed primarily to help small farmers by enabling them to expand their production by means such as credit, improved seeds, technical assistance, farm-to-market roads, small scale irrigation, and many other activites.

U.S. contributions to international financial institutions and international organizations will also contribute mightily to world agricultural development. For example \$133 million is requested for the United Nations Development Program (UNDP), which benefits over 130 nations with such projects as irrigation, water basin development, and energy for agricultural use.

For P.L. 480 the new proposal calls for a program of \$1.4 billion in FY 1979, to finance shipments of approximately 6.7 million tons of agricultural commodities to less developed countries. This is the same tonnage as planned for FY 1978, although 1978 shipments could fall below that level due to recent increases in commodity prices. The International Development Assistance Act also recognizes the concern, shared by Congress, that the development aspects of food aid should be strengthened.

This is already being actively pursued, particularly with the new Title III provisions of P.L. 480, which permits the United States to forgive repayment of a portion of credit extended under Title I with respect to purchases of agricultural commodities if currencies received from the sale of such commodities are used for agreed upon development projects and policy reforms in the recipient countries. Such projects include the enhancement of food production capabilities, and programs to improve storage, marketing, and human nutrition.

At present, five or six recipient countries* are in the process of developing Title III programs, including those to improve storage and marketing facilities. Title I agreements have for many years included self-help provisions which address many problems, including marketing and distribution.

The Office of the General Sales Manager is presently reviewing Title I country-commodity allocations to determine whether additional funds are needed to maintain projected shipments in FY 1978, and to respond to country requests which we cannot now meet. The GSM review will be completed soon, and we expect that additional funds will be needed to meet new and and serious needs. We expect therefore to seek Presidential approval for a a supplemental budget request to Congress.

*Egypt, Haiti, Honduras, Morocco, Bangladesh, Pakistan

Meanwhile, a longer-term study of P.L. 480 is underway as directed by Congress in the Food and Agriculture Act of 1977. Section 1210 of that law expressed the sense of Congress that attention be given to handling, storage, transportation, and administrative procedures in order to improve the operation of P.L. 480. The Secretary of Agriculture was directed to appoint a special task force to review, report, and recommend within 18 months.

The Task Force, chaired by Assistant Secretary Dale Hathaway, has now met with other Departments and agencies, as well as non-government organizations. It has developed procedures and appointed subcommittees to review administration, quality control, handling and storage, the regulation of organizations to which services are contracted, and other aspects of P.L. 480.

International Commodity Reserves

A priority concern of U.S. policy the past year has been to develop a workable reserves programs--one that would avoid any repetition of 1974 when a U.S. crop shortfall caught us with storage bins already depleted by the 1972 world crop failures. Last August, the White House announced that the Administration would seek Congressional approval of a special International Emergency Food Reserve of up to 6 million tons. We expect this proposed legislation to be transmitted to Congress this week.

This proposal, now known as the International Emergency Wheat Reserve, would provide for releases of these stocks only for non-commercial food aid to improve world nutrition and meet U.S. obligations under an international reserves agreement. Such an international reserves agreement is now being negotiated in Geneva as part of the proposed new International Wheat Agreement.

Without new legislation, the Commodity Credit Corporation does not have the authority to establish and operate a reserve for the purposes I have just outlined. The proposed legislation would authorize CCC to acquire such a wheat reserve which could be insulated from the market and used only for the designated purposes.

The use and final size of the International Reserve will depend on the outcome of the IWA negotiations, which should be wound up in mid-1978. It is contemplated that the IWA will include a Wheat Trade Convention which may contain provisions for an international system of nationally held wheat reserves. It is contemplated that the IWA will also include a Food Aid Convention to ensure that the food assistance available to developing countries will not be less than the 10 million tons a year recommended by the World Food Conference and the World Food Council.

Should reserve stock provisions not be made a part of the Wheat Trade Convention, the International Emergency Wheat Reserve would be limited to a maximum of 6 million metric tons and would be used only to provide food assistance to developing countries. Under those circumstances, there are two general situations in which the International Reserve would be used:

- (1) It would be used to ensure that the United States could continue to meet priority food assistance needs even in years of short supplies and high prices. A primary example of such a situation occurred in 1973-75.
- (2) The International Emergency Wheat Reserve could also be used to provide humanitarian relief in any foreign country which suffers a major disaster, especially one that causes a major food shortfall. However, it would be

used when food is not available through P.L. 480 and the United Nations. Therefore, we expect that this use would not be great.

On the other hand, if a Wheat Trade Convention with reserve obligations is successfully negotiated and approved by Congress, the authority provided for the International Emergency Wheat Reserve would be used both to meet U.S. reserve obligations under that Convention and to provide greater assurance that the U.S. could fulfill its food assistance commitments. To do this, our International Reserve would probably have to be expanded, depending on the size of obligations assumed under the Wheat Trade Convention.

The question has been asked: How will the International Emergency Wheat Reserve help farmers? The answer is that there will be some immediate impact in the market when the stocks are acquired. Also, the Reserve will further establish the United States as a dependable supplier, providing new assurances to our customers that we need never consider an embargo short of the gravest national emergency.

Moreover, it should be remembered that our proposed International Emergency Wheat Reserve would be an integral part of an international wheat agreement; it would formalize our commitment to meet food aid needs whatever the market situation. That portion of the reserve assigned to the IWA could clearly lead to a stabilizing of potential markets for commercial sales--thus expanding future market opportunities. It would also lead to the sharing among nations of the burden of acquiring and carrying stocks during periods of surplus. That is why we are sending our reserve legislation to Congress while an international wheat agreement is still under negotiation.

One other thought in order to avoid confusion: We have under way right now the signup for a domestic grain reserves program, which will be farmer-held and farmer-controlled. This reserve, not to be confused with the international reserve proposal is a voluntary program to insulate 300 million bushels of

wheat and 700 million bushels of feed grains from the market.

The farmer reserve should eliminate a great deal of the pressure of current excess stocks on the market and strengthen prices. It will help the farmer pay storage costs while the grain is in reserve. It ensures world customers that the U.S. will be a reliable supplier of grains, irrespective of the weather. And it gives the farmer complete control. Only he makes the decision to sell or not to sell.

Export Credit

We have also made changes in export credit--and other proposals are under active consideration. Funds approved for use in the Commodity Credit Corporation Export Credit Sales Program have been more than doubled--from \$750 million to \$1.7 billion. In addition, soybeans and soybean meal have been added to the commodities eligible for financing.

Two new export assistance programs involving credit also are being initiated. One of these is a CCC risk program designed to protect exporters from defaults in payments for non-commercial reasons. Under that program, a foreign buyer is required to have a bank in his country issue a letter of credit to the exporters. If the bank defaults on any of the payments for non-commercial reasons, such as government acts, the CCC will pay the exporter the amount of the default. This commitment by the CCC will permit exporters to obtain private financing that otherwise might be unavailable. At present, the program is being conducted on a trial basis, and limited to export sales of cotton.

The other program is a joint effort by USDA and the Overseas Private Investment Corporation to encourage U.S. companies with recognized capabilities in agricultural management and marketing to help expand and improve the livestock and processing industries in developing nations.

Through this program it is hoped that demand for U.S. grain, oilseeds and other commodities in these countries can be increased. Implementation of the program includes the offering of OPIC political risk insurance and loan guaranties, direct loans, and funds for feasibility studies. USDA's Commodity Credit Corporation will finance sales of U.S. agricultural commodities with payment scheduled over a maximum three year period. Proceeds of credit sales can be employed as working capital for the benefit of the projects.

We have noted with great interest the several intermediate credit bills. There is no question that we must find new ways to enhance our agricultural exports to bolster farm prices and strengthen our overall trade position.

To date there is little evidence that other exporting countries are using intermediate credit as a competitive export tool. For the United States to use it for competitive purposes would no doubt result in other countries also employing it. In such a competitive situation, it is doubtful that the United States could increase its agricultural exports in the absence of measures which expand the total market.

However an intermediate credit program might be developed to focus on longer run market development rather than short-run market share considerations, which would enhance the overall size of the market and thereby increase U.S. agricultural exports without retaliation from other exporters highly unlikely. Possibly, intermediate credit could be used to expand or develop the overall market of a country by improving port and unloading facilities, commodity storage, and processing and distribution facilities.

The program might also be used to finance breeding animals. As live-stock herds are established and enlarged in other countries, this can provide

a market for increased sales of grains and feeds. Cattle breeders, particularly, might be responsive to intermediate credit because their breeding-income cycle is longer than 3 years.

We would like to encourage the various Congressional committees interested in intermediate credit to investigate its uses more fully. In particular, what are its competitive implications and how does it relate to credit programs offered by the World Bank, AID, FAO and other financial institutions?

Given the several unanswered questions the Working Group on Food and Agricultural Policy is considering the various options which might offer productive market development. We will report to the Congress the results of these considerations.

Another continuing dialogue in Congress has to do with proposals to authorize Communist countries to participate in CCC export credit sales programs, a question that involves serious policy considerations outside the Department of Agriculture. Among the Communist nations, only Yugoslavia, Poland, and Romania are eligible under the Trade Act of 1974 to participate in Government programs or to receive most favored nation treatment.

Even with these limitations, our farm product exports to Communist countries will approximate \$2.7 billion in this fiscal year. From the standpoint of our agriculture, any legislation or other actions that could result in expanded exports would be highly desirable. However, because of other overriding considerations, the Administration has not found it possible at this time to support the extension of export credits and MFN to those nations now ineligible. But this whole question will continue to receive intensive study.

President Carter, in a message accompanying his State of the Union address, said that "one of the most critical issues facing the United States is our economic and political relationship with developing countries. Our economy has become visibly dependent on the developing world for supplies and markets."

Those words by the President underscore the importance of efforts and activities by USDA and other departments to strengthen aid, trade, and development programs. I look forward to the conclusions of this Committee following these hearings. I know that we who are involved day-to-day in world food programs will find most helpful your counsel and advice.

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